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CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER

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14 January 1980

USSR: ECONOMIC DENIAL SITUATION REPORT No. 34Key Points

Grain: We can confirm Soviet purchases of 2.3 million tons of grain during the past four weeks for delivery to the USSR by 30 September 1981. The sales activity represents purchases from Argentina (1.1 million tons), Canada (500,000 tons), Spain (400,000 tons), and Thailand (a net of 300,000 tons). With these commitments USSR purchases this LTA year now stand at 29 million tons, just 5 million tons short of estimated Soviet port capacity. [REDACTED]

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The USSR has received 3.8 million tons of the 8 million tons of US-origin grain authorized for shipment this LTA year--they have scheduled liftings of 2.8 million tons of US grain for January-February. [REDACTED]

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Equipment Negotiations: A US firm has signed an engineering study contract for an offshore oil production platform for the Sakhalin area. A follow-on contract for the platform could be worth as much as \$250 million. Meanwhile, French firms continue to push ahead with negotiations for major deals--one firm has signed to provide \$65 million worth of equipment for a chemical plant while another firm has signed a 10 year trade pact valued at \$6.5 billion. [REDACTED]

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ADDENDUM: Economic Denial Measures Against the USSR: An Update

This memorandum was prepared by the Office of Economic Research and was coordinated by the Office of Political Analysis. Comments and queries should be addressed to [REDACTED]

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[REDACTED]
ERM 81-10017C

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Record Hungarian Wheat Exports

Because of a record wheat crop, Hungary apparently was able to meet a sharply increased wheat export commitment to the Soviet Union in 1980. [REDACTED]

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[REDACTED] unprecedented 800,000-ton
export target had already been shipped to the USSR. [REDACTED]

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Paris Concludes Major Chemical Agreement

The USSR in December signed a 10-year pact with the French chemical producer, Rhone-Poulenc, that calls for reciprocal trade valued at \$6.5 billion. Under the agreement the French will supply the USSR products and technology, mainly for crop protection and other agricultural uses, with the Soviets in

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return supplying unspecified quantities of crude oil, ammonia, methanol, and naptha. According to a spokesman of the French firm, the pact will not involve direct barter. In 1976 the Soviets ordered several chemical facilities from Rhone-Poulenc, including 3 large fertilizer plants, 2 pesticide plants and a phosphoric acid unit. Most recently, in September 1980, the USSR purchased a \$200 million animal feed additive plant from the company that will use technology developed jointly with another French firm. [REDACTED]

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Meanwhile the French firm Pechiney Ugine Kuhlman also has announced it has concluded a \$65 million contract to sell equipment for a chemical plant in the USSR. The order pushes French sales in calendar 1980 close to the \$750 million mark. In contrast, French sales of machinery and equipment totaled \$380 million in all of 1979. [REDACTED]

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Mixed Signals from Moscow on US-USSR Trade

With Western economic sanctions now entering their second year, the Soviets are sending mixed signals about the prospects for future US-Soviet trade. Their official public pronouncements suggest strongly that the Kremlin has retreated to the most cautious trade formulation in many years. The subdued tone of the language contained in the recently published draft guidelines for the new 11th Five Year Plan, for example, contrasts sharply with the bullish language of the 10th FYP announced during the headier East-West trade days of the mid-1970s. According to a senior Soviet foreign affairs analyst, the fact that no target for foreign trade turnover was announced for the 11th FYP largely reflected considerable uncertainty among Soviet planners over what role to assign to US suppliers. Gosplan Chief Baybakov struck a similar tone in his address to the Supreme Soviet in October. [REDACTED]

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Despite the bland formulation in the Five Year Plan guideline, the Soviets are sending other signals--as they did throughout 1980--that they seek a "normalization" of trade ties. [REDACTED]

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ADDENDUM*

Economic Denial Measures Against the USSR: An Update

The impact of the economic denial measures imposed on the Soviet Union by the United States and the major Allies last January is waning. [REDACTED]

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Before sanctions were imposed on 4 January 1980, Moscow was trying to soften the effect of the poor 1979 harvest by purchasing as much grain as its ports could handle. With the imposition of sanctions, however, the USSR was able to import only 28 million tons of grain, or roughly 10 million tons less than pre-embargo port capacity. With a second consecutive poor crop in 1980, the USSR remains badly in need of grain. But availability will not be the problem that it was last year. We believe total deliveries from all sources for the period October 1980-September 1981 will rise to 34 million tons. [REDACTED]

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The embargo on the other agriculture-related commodities is causing Moscow fewer problems. The roughly 2 million tons of soybeans and soybean meal denied by the US in the 1980 LTA year have been fully replaced by Argentina and firms in Western Europe. Moscow already has purchased phosphate materials and products equivalent to about half of the nutrient value of the 1 million-ton annual shipment of superphosphoric acid cancelled by the US and probably can obtain enough to meet its requirements. [REDACTED]

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The impact of Western sanctions on technology and equipment, meanwhile, has been softened in part large because France, West Germany, and Japan have decreased their support for restrictions on trade with the USSR since the summer of 1980. The value of new Western contracts to supply equipment, which fell from \$1.9 billion during January-June 1979 to under \$600 million in the first half of 1980, has since July rebounded sharply to the earlier level. Even so, economic relations with the Soviets have not returned to business as usual: [REDACTED]

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[REDACTED] the post-Afghanistan tightening of COCOM controls on technology exports is basically intact. [REDACTED]

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[REDACTED]

The interruption in technology sales could have a negative impact on several Soviet industries over the next few years:

- o Soviet oil and gas exploration schedules, especially in promising offshore and Arctic areas, have been set back by recent delays in granting export licenses for such items as drillships and rigs.
 - o The revocation of licenses for the drill bit plant will complicate efforts to dramatically improve drilling efficiency.
 - o The embargo on US metallurgical technology already has delayed plans for important Soviet steel and aluminum projects.
 - o US denial of computer parts and assembly-line equipment has frustrated Soviet plans to double production capacity for diesel engines at the Kama truck plant.
 - o The embargo on Western supplies of silicon has severely reduced Soviet access to the essential material for producing integrated circuits, which have military applications.
- [REDACTED]

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Despite these limited successes, the ultimate impact of the technology sanctions will be diminished severely to the extent that Western Europe and Japan continue to step in as replacements for US suppliers.

[REDACTED]

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Western denial measures also have disrupted Soviet planning for 1981-85 and raised fundamental questions within the leadership over the future of trade with the West. Nevertheless, the USSR's persistent pursuit of new Western credit lines and technologies suggests that the Kremlin is not now seriously entertaining a move toward autarky. And while the denial of Western grain has reinforced the longstanding Soviet inclination to seek agricultural self-sufficiency, the leadership is realistic enough to know that reaching this goal is not feasible in the 1980s.

[REDACTED]

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